



TAXPAYER GUIDE

FOREIGN CONTRACTOR WITHHOLDING TAX FORMS

This taxpayer guide will help you to:

- Determine if you have an obligation to withhold tax from payments to foreign contractors under the Foreign Contractor Withholding Tax regime,
- Understand your filing and payment obligations in relation to Foreign Contractor Withholding Tax,
- Complete and submit the monthly Foreign Contractor Withholding Tax remittance advice and the Annual Reconciliation statement

FOREIGN CONTRACTOR WITHHOLDING TAX

The Income Tax Act 1959 (as amended) imposes tax on a foreign contractor who derives income from a prescribed contract (see below). This tax is collected by way of amounts withheld from payments made to the foreign contractor under the Foreign Contractor Withholding Tax (FCWT) regime.

A person carrying on a business in PNG who enters into a prescribed contract with a foreign contractor is deemed to be the agent of the foreign contractor. The agent has certain obligations under the law, which include the requirement to withhold tax from gross payments made to the foreign contractor, submit a copy of the contract to the IRC, and report and pay the tax withheld to the Commissioner General by the due date.

What is a foreign contractor?

A foreign contractor is:

- Any person who is **not a resident** of PNG; and
- A party to a **prescribed contract** (see below); and
- A party who receives **payments for services** under a contract where those payments cannot be considered to be either salary or wages or management fees.

What is a prescribed contract?

To be covered as a “foreign contractor” under Foreign Contractor Withholding Tax, the contract must be a prescribed contract, which in turn is defined to mean a contract for “prescribed purposes”. “Prescribed purposes” means purposes for or in connection with:

- a) the installation, maintenance or use in PNG of **substantial equipment** or substantial machinery; or
- b) the construction in PNG of structural improvements or other works, including–
 - (i) the **construction of roads**, including bridges, culverts or similar works forming part of a road; and
 - (ii) the **erection of buildings**, fences or similar improvements; and
 - (iii) the **clearing or draining of land**; and
 - (iv) the **construction of ports** or port facilities; and

(v) the construction of facilities for the provision of **water, light, power or communication**; and

(vi) the provision or improvement of **transport facilities** of any kind; or

c) the use of, or right to use, in PNG, any **industrial, commercial or scientific equipment including** any machinery or apparatus or appliance, whether fixed or not, and any vehicle, shipping vessel or aircraft; or

d) the provision in PNG of **professional services** or services as an adviser, consultant or manager, including services in conjunction with the purposes set out in Paragraphs (a), (b) or (c) of this definition.

Reporting and paying withheld amounts

The rate of withholding is **12% of the gross payment(s)** made to a foreign contractor. You are required to deduct the tax at the time payment is made to the foreign contractor. You must report and pay the amounts withheld monthly and prepare and lodge an Annual Reconciliation statement.

Your monthly Foreign Contractor Withholding Tax remittance advice form, together with payment, must be submitted to the Commissioner General no later than the **21st day of the month** following the deduction. The Annual Reconciliation statement of Foreign Contractor Withholding Tax is due no later than 28 February of the following year.

Late payment of tax deducted may lead to additional tax being imposed by way of penalty at a rate of 20% per annum on the amount remaining unpaid. Furthermore, failure to file returns and/or pay withholding tax (including additional tax) as required by law is an offence which is punishable upon conviction by a monetary fine or imprisonment.

Additional information about Foreign Contractors Withholding Tax

Additional information about employees and independent contractors and Foreign Contractors Withholding Tax can found in the Taxation Circulars listed below:

1. Taxation Circular TC 2013/1: *Distinguishing Employee and Independent Contractors and their Tax Implications*
2. Taxation Circular TC 2013/4: *Administration of the Foreign Contractor Withholding Tax Regime*

These documents can be downloaded from the IRC website at: www.irc.gov.pg/circulars.html

MONTHLY REMITTANCE ADVICE FORM

Commencing from the 2013 financial year, Form F1 "*Foreign Contractor Withholding Tax Remittance Advice Form*" must be used to report and pay monthly Foreign Contractor Withholding Tax. Your monthly form, together with any payment is due no later than the 21st of the following month. You are required to submit a remittance advice form for each month, including any month in which no tax was withheld. If no tax was withheld during a month submit a "nil" remittance advice form.

Form F1 "*Foreign Contractor Withholding Tax Remittance Advice Form*" looks like this:

FORM F1	 	PAPER NEW GUINEA INTERNAL REVENUE COMMISSION PNGIRC - Your Partner in Nation Building <small>INCOME TAX ACT 1959 AS AMENDED</small>	PLACE STICKER BAR CODE HERE (25.0mm x 50.0mm)										
Foreign Contractor Withholding Tax			Taxpayer Identification Number (TIN): <table border="1" style="width: 100%; height: 20px;"> <tr> <td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td> </tr> </table>										
FOREIGN CONTRACTOR WITHHOLDING TAX REMITTANCE ADVICE FORM													
NAME AND ADDRESS OF TAXPAYER (WITHHOLDER)													
NAME OF TAXPAYER:													
CONTACT / REPRESENTATIVE:													
PHONE No:													
E-MAIL ADDRESS:													
MAILING ADDRESS	SECTION No:		LOT No:										
	STREET / SUBURB / DISTRICT:												
	P.O. BOX:												
	COUNTRY:	PROVINCE:											
	CITY / POST OFFICE:												
	CARE OF (C/O):												
TAX PERIOD													
TAX PERIOD (MONTH):		YEAR:											
DETAILS OF FOREIGN CONTRACTOR PAYMENTS													
TOTAL CONTRACTOR FEES PAID	TOTAL FCWT WITHHELD	TOTAL REMITTED											
K	K	K											
<small>NOTE: THE AMOUNT PAID MUST BE CALCULATED AS 12% OF THE TOTAL CONTRACTOR FEES PAID (BOX 30) TO THE FOREIGN CONTRACTOR(S) FROM PRESCRIBED CONTRACTS AS DEFINED IN PART III DIVISION 14A OF THE INCOME TAX ACT 1959 AS AMENDED. REFER TO THE TAXPAYER GUIDE FOR FURTHER DETAILS.</small>													
I declare that the information that I have provided is true and correct in every detail and discloses a full and complete statement of the facts. I understand that the law imposes heavy penalties for false and misleading statements.													
SIGNED: _____		DATE: _____											
NOTICE													
<small>A remittance accompanied by this form and signed by or on behalf of the person, partnership, company or Public Authority making the deductions should be forwarded to: Commissioner General, Internal Revenue Commission, P.O. Box 777, Port Moresby.</small>													
<small>For additional information please refer to page 2 of this form.</small>													

You can obtain a copy of Form F1 “Foreign Contractor Withholding Tax Remittance Advice Form” by:

1. Downloading it from the IRC website at www.irc.gov.pg/tax_forms.html, or
2. Picking up a copy in person from the Internal Revenue Commission (IRC) office of your choosing.

Completing the monthly remittance advice form

Form F1 “Foreign Contractor Withholding Tax Remittance Advice Form” may be completed by hand on a paper copy or it may be completed electronically. Do not forget to sign and date the declaration. Electronic signatures are acceptable for forms that are completed and submitted electronically

Some tips for completing Form F1 “Foreign Contractor Withholding Tax Remittance Advice Form” are provided below:

- **Total Contractor Fees Paid:** This is the total of all gross payments made to foreign contractors during the month before tax was withheld.
- **Total FCWT Withheld:** This is calculated as 12% of the *Total Contractor Fees Paid* (i.e. $12\% \times$ the amount written in Box 30)
- **Total Remitted:** This is usually the same as the amount written at “Total FCWT Withheld”. If for any reason you are remitting a lower amount (making a partial payment), write the amount being paid here and contact the IRC to explain why the payment was not made in full.

Submitting the monthly remittance advice form

Your completed and signed Form F1 “Foreign Contractor Withholding Tax Remittance Advice Form” together with your payment can be submitted to the Commissioner General as follows:

Internal Revenue Commission - “Your Partner in Nation Building”

Completing the Annual Reconciliation statement

Form F2 – “*Foreign Contractor Withholding Tax Reconciliation Statement*” may be completed by hand on a paper copy or it may be completed electronically. Do not forget to sign and date the declaration on page 2. Electronic signatures are acceptable for forms that are completed and submitted electronically.

Some tips for completing Form F2: *Foreign Contractor Withholding Tax Reconciliation* are provided below.

Page 1:

Taxpayer Identification Number (TIN): Your Taxpayer Identification Number (TIN) is the unique nine digit *Taxpayer Identification Number* (TIN) issued by the Internal Revenue Commission (IRC). TINs are replacing Taxpayer File Numbers (TFNs) in the PNG tax system. If you have not yet been issued a TIN, please contact your nearest IRC office to have one issued.

Note: TINs are issued centrally from Revenue Haus in Port Moresby; however the Provincial IRC offices can receive TIN applications and submit them for processing on your behalf.

Foreign Contractor Withholding Tax Remittances table: Write the amount of Foreign Contractor Withholding Tax remittances that you paid to the IRC for each “Deduction Month” in the “Amount Paid” field.

- **Total (1)** – Add up the amounts included in the “*Amount paid*” fields in the table and write the result at Total (1), line 130.
- **Total (2).** Copy the amount written at “*Total 2*” in the “*Tax Amount Deducted*” column of the “*Details of Foreign Contractor Withholding Tax*” table on page 2.

Note: If the amount shown at “**Total 1**” is different from the amount shown at “**Total 2**”, you are required to furnish an explanation in writing to explain the reason for the discrepancy.

Page 2:

Details of Foreign Contractor Withholding Tax Deducted:

For each Foreign Contractor provide the following details (one line per foreign contractor)

- **Taxpayer Identification Number (TIN):** This is the unique nine digit Taxpayer Identification Number (TIN) issued to the foreign contractor by the Internal Revenue Commission. If the TIN of the foreign contractor is not known, leave this field blank
- **Name and Address of Person/Business:** This is the name of the Foreign Contractor with whom you have a prescribed contract and their business address
- **Gross Amount:** This is the total of all gross payments due to the foreign contractor for the financial year before tax was withheld under the prescribed contract
- **Tax Amount Deducted:** This is the total of all Foreign Contractor Withholding Tax deducted by you from payments due to the foreign contractor during the year.

Total (2): This is the sum of the amounts written in the “*Tax Amount Deducted*” column.

Note: If the schedule of the deductions (*Total (2)*) does not match *Total (1)* on page 1 of the form, then your balances do not reconcile for the year. You should review your information and correct any errors. If the totals still do not match, a detailed written explanation is required to explain the reason for the discrepancy.

Submitting the Annual Reconciliation statement

Your completed and signed Form F2 “*Foreign Contractor Withholding Tax Reconciliation Statement*” can be submitted to the Commissioner General as follows:

- In person to an Internal Revenue Commission (IRC) office
 - Hours 8:30 a.m. to 3:30 p.m. Monday to Friday inclusive, public holidays excepted.
- By mail to the Commissioner General, Internal Revenue Commission, P.O. Box 777. Port Moresby
- By email to payments@irc.gov.pg

Alternatively, you may prefer to submit an electronic file of the schedule data in an excel template. The excel template is available from the IRC and can be submitted via e-mail or on other physical media such as CD or DVD.

A sample extract from the template looks like this:

	A	B	C	D
	TAXPAYER IDENTIFICATION NUMBER (TIN)	NAME AND ADDRESS OF PERSON/BUSINESS	GROSS AMOUNT	TAX AMOUNT DEDUCTED
1				
2				
3				
4				
5				
6				

The electronic submission can be submitted to the Commissioner General as follows:

- By email to payments@irc.gov.pg
- On physical media and either posted or delivered to your local Internal Revenue Commission (IRC) office.

Further Information

For further information about Foreign Contractor Withholding Tax, how to complete Forms F1 and F2 or how to use the Electronic Funds Transfer facility, please contact:

SME Other Industries Assessor 322 6530	Arua Naime 322 6714 naimea@irc.gov.pg
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